

02710-2

Pensions & Investment Age

©Entire contents copyright 1984 by Crain Communications Inc. All rights reserved.

The newspaper of corporate and institutional investing • \$3.00 an issue • \$60 a year • September 17, 1984

Wall Street's Winners Wall Street's Winners Wall Street's Winners



Broker survey story — page 3

31
DC2001ASTATLR
FMPJ
STATISTICAL REFERENCE INDEX
4520 EAST-WEST HWY SU B00
WASHINGTON DC 20014

Midcon boosts equity managers

By Barry B. Burr

LOMBARD, Ill. — Midcon Corp. has increased its stable of equity managers while reducing the variety of stock it owns.

David J. Dykstra, manager-insurance and pensions, said Midcon added three equity managers, doubling the number of its equity managers. "Yet, we reduced the number of stocks by 20% and reduced the like holdings of managers by 50%," he said.

"By adding the three extra managers, I would assume we would have increased our holdings," he said.

In July, Midcon completed the reshuffling of its \$175 million in pension assets, a move prompted by poor performance and a desire to diversify.

In addition, Midcon hired two more bond managers. One is Dimensional Fund Advisors Inc., Chicago, which was hired for its inflation hedge fund, composed of

short-term bonds ranging in maturity from about 30 days to a year. The other is Eberstadt Asset Management Inc., New York, hired for its high-yield bond strategy.

Charles G. Freund, Midcon vice president, secretary and treasurer, likes to refer to the latter investments as "junk" bonds, a variation on the popular lingo for the low-rated bonds.

During its nine-month restructuring, Midcon hired four new equity managers, retaining one existing active adviser and one passive manager, and firing two. It also

hired three bond managers, replacing one other.



MIDCON CORP.

For equities, it hired one low

price-earnings ratio and high-yield manager — Sanford C. Bernstein & Co., New York; one market timer with a conservative portfolio of low P/E stocks — Century Capital Associates, New York; and two aggressive growth managers — Provident Investment Counsel Inc., Pasadena, Calif., noted for its selection of high P/E, high growth rate and low dividend yield stocks, and BMI Capital Corp., New York, known as

Continued on page 73

Late news

Lawyers' Co-op shifts

ROCHESTER, N.Y. — Lawyers' Cooperative Publishing Inc. switched to a multimanager system from its sole manager, said Seymour Fogel, vice president-finance and treasurer.

Previously, the bank's only manager was Lincoln First Bank, Rochester, which has decided to quit active management, Mr. Fogel said. Continued on page 4

Pensions & Investment Age

\$330 million loan for NYC venture

GE to get up to 13.5%

By Mark Westerbeck

NEW YORK — The General Electric Pension Trust will receive a fixed return of 13.25% to 13.5% on \$330 million it lent to First Winthrop Corp. to finance the acquisition of 19 New York City properties.

Under the deal made last January, the pension fund has an option to acquire a half-interest in eight of those properties in 13 years.

The group acquisition of the generally prime Manhattan real estate got much attention when the John D. and Catherine T. MacArthur Foundation sold the property last January to First Winthrop, a major privately held Boston syndicator (*Pensions & Investment Age*, Feb. 6).

Winthrop regularly has used the \$12 billion General Electric Co.'s pension fund as a source of financing for its equity offerings to tax-motivated individual investors. This project was Winthrop's largest and its first venture into New York City.

GE got involved in this extraordinarily large and complicated convertible mortgage on the strength of its highly regarded management: A pioneer in real estate investment among pension funds under the direction of Frank X. Tansey, GE is the largest pension fund to run its realty operation in-house.

The 19 commercial properties, primarily office buildings, hold more than 4.5 million square feet of rentable space and were 90% leased when the prospectus on the syndication offering was being prepared in April.

The MacArthur Foundation was forced to sell the choice real estate to comply with a

federal law prohibiting more than 20% ownership in a company's stock. The properties were owned by Bankers Life & Casualty Co., the foundation's sole asset.

The properties are held in two private partnerships with a combined capitalization of \$757.4 million, chiefly the \$336 million the current offering will raise and the \$330 million acquisition loan provided by GE. In all, the deal includes mortgage debt, equity to be raised and the deferred portion of the purchase prices.

One of the private placements, the investor partnership called 1626 New York Associates Limited Partnership, seeks to raise the \$336 million in equity by selling 1,344 units at \$250,000 each. This investor partnership serves as general partner to the operating partnership, which owns the 19 properties.

The \$330 million in financing from the GE fund is secured in the investor partnership by notes on eight of the better properties in the portfolio: 757 Third Ave., 410 Park Ave., 1 Gulf & Western Plaza (better known as the Gulf & Western Building, on Columbus Circle), 535 Fifth Ave., 545 Fifth Ave., 61 Broadway, 1372

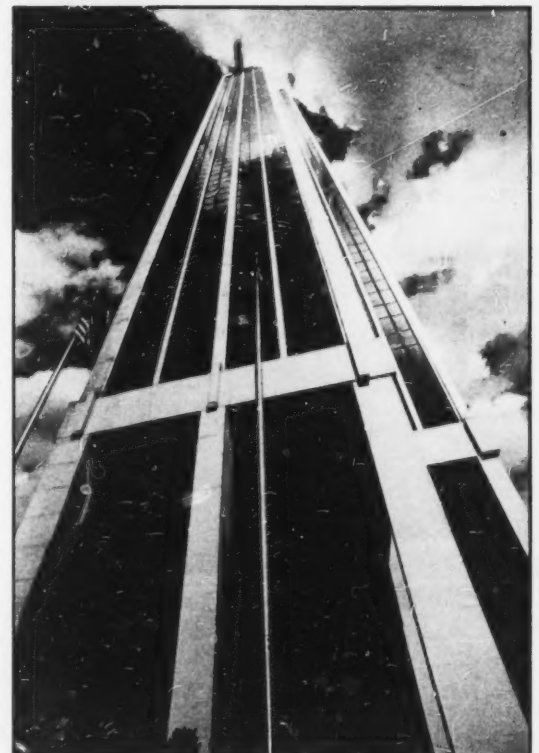


Photo by Arnie Adler

... the General Electric Pension Trust has an option to acquire half-interests. Also among the buildings is 1 Gulf & Western Plaza

Broadway and 366 Madison Ave. These also are the buildings on which GE holds the conversion option.

The total acquisition package involved: Continued on page 73



Photo by Arnie Adler

757 Third Ave., New York, is one of eight buildings on which ...

Goldman tops brokerage survey

By Kimberly Blanton

NEW YORK — Goldman, Sachs & Co. nudged out Salomon Brothers Inc. as the brokerage firm rated highest by institutional investors for its stock and bond research and trading prowess.

Goldman, Sachs garnered the most points — 259 — from the 85 investment firms that responded to *Pensions & Investment Age's* annual survey of how the brokerage firms rated in 1983 on four financial services: stock and bond trading and research.

Salomon Brothers chalked up 245 points; Merrill Lynch Capital Markets, 240; and First Boston Corp., 102. ("The rating is scored by assigning three points to firms named as a first choice, two for second and one for third choice.")

Goldman, Sachs and Salomon Brothers traded spots in 1984.

In the survey conducted last year, Salomon ranked first and Goldman, Sachs, second (*P&I Age*, Sept. 19, 1983).

New names appeared this year among the top three firms in each of the four separate categories in which the brokerage firms were rated: equity research and block trading and fixed-income research and trade execution.

The same system of assigning points was used.

Merrill Lynch and Goldman, Sachs maintained their first and second rankings for equity research, but Donaldson, Lufkin & Jenrette Securities Corp. stole third from Morgan Stanley & Co. Inc. Morgan Stanley ranked third in equity research in the 1983 survey but rarely was mentioned this year.

Other firms that received first-choice mentions in equity re-

Continued on page 19

Medford move avoids use of assets in takeover

By Kimberly Blanton

MEDFORD, Ore. — Medford Corp. amended its pension plan charter to preclude any use of its \$17 million in case of a takeover just prior to accepting an Amalgamated Sugar Co. offer to purchase the firm.

Medford made two basic changes to its charter that can't be reversed without approval from the plan's 1,000 participants, said Ronald Parker, Medford's treasurer. The first amendment, made Aug. 3, awards all excess assets to the plan's participants in case of termination.

On Sept. 4, Medford changed the plan's charter so if in-house staff invests the assets, no more than 3% can be invested in a company affiliated with Medford.

After resisting one takeover threat from Amalgamated Sugar, a company controlled by Texas financier Harold Simmons, Medford's board endorsed a tender offer for \$44 a share for the rest of its stock. Amalgamated reportedly already owned more than 30% of Medford's stock.

The first takeover threat prompted Medford to take "steps to ensure none of our pension assets could be used by Simmons

or anyone else," said Mr. Parker.

The investments of the Amalgamated Sugar pension fund have been restricted by the Labor Department, which charged Mr. Simmons used pension assets of companies he controls to gain control of other companies. In a settlement with the DOL, an independent fiduciary, Torrey Clark & Co., was named.

Mr. Parker said he understands Amalgamated Sugar will finance the \$110 million purchase with proceeds from a recent \$90 million subordinated floating note issue and some equity securities it held in the corporate portfolio.

Phoenix thrift buys F.I.A. Associates

By Mark Westerbeck

SACRAMENTO, Calif. — F.I.A. Associates Inc., a low-profile real estate adviser to a few large public pension funds, is being sold to a Phoenix-based savings and loan association.

Pending the approval of the Federal Home Loan Bank Board, First Federal Savings & Loan of Arizona will acquire all F.I.A. stock from the lone shareholder, H. James Griggs, founder and board chairman.

The purchase price was not revealed.

Mr. Griggs has a seven-year contract to remain as F.I.A.'s head, and no changes in the firm are planned as a result of the buy-out.

The 59-year-old thrift, which went public in 1983, holds total assets of \$3.8 billion and is not part of a holding company, although formation of one is under consideration.

Ten-year-old F.I.A. came of age in the pension business when the California Public Employees Retirement System became its first client in July 1981.

It is the sixth largest real estate

adviser, with \$1.41 billion invested in equity and hybrid debt chiefly for three full-time direct account clients.

Other jumbo-fund clients are the Teacher Retirement System of Texas and the Utah State Retirement Systems.

Part-time consulting and advisory relationships are held with the Ohio Teachers Retirement System and Kentucky Teachers' Retirement System.

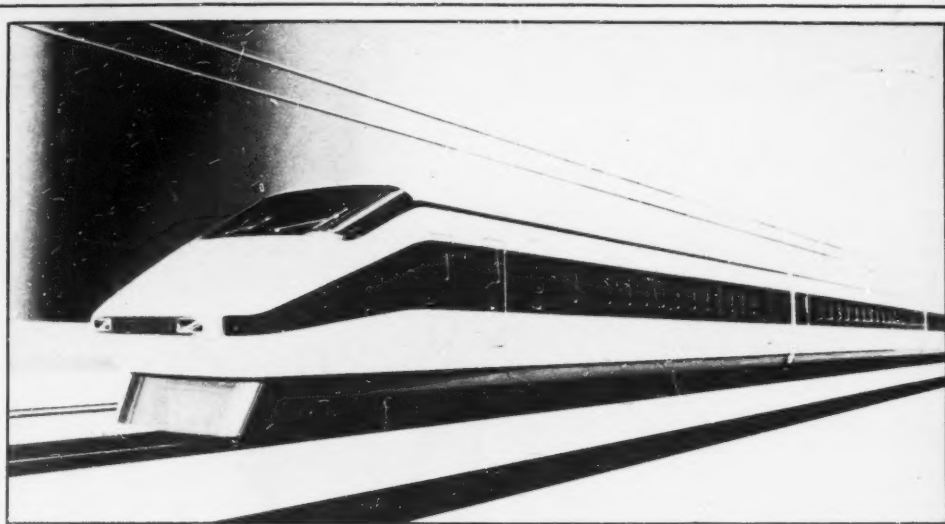
The Pennsylvania State Employees' Retirement System has designated F.I.A. Associates' first closed-end fund for investment (see story on page 5).

The success of F.I.A. is due largely to the legendary marketing talents of Mr. Griggs, according to competitors.

No one would talk about the competition for attribution, but one real estate manager observed: "F.I.A. is a success because Griggs is one hell of a (public relations) man, a phenomenal PR man."

"He knows how to wine and dine and from the nuts and bolts, become the peoples' best friend," the manager said.

Continued on page 69



Pension funds are being approached to invest in a private stock offering by American Highspeed Rail Corp. for its proposed Los Angeles-to-San Diego high-speed train. About \$3 billion in financing is contingent on raising \$50 million from the stock offering.

Tacoma fund hires, moves into realty

By Steve Hemmerick

TACOMA, Wash. — The Tacoma Employee City Retirement Fund increased its money managers to five from two, placed almost 40% of its \$109 million in assets with the new managers and invested in equity real estate for the first time.

It also hired Wilshire Associates, Santa Monica, Calif., as consultant. Previously, the fund used Frank Russell Co., Tacoma.

The switch was made after the pension fund placed \$24 million with a separate Russell company, the Frank Russell Trust Co., also based in Tacoma. It put \$19 million in the trust company's Equity Fund 1 and \$5 million in its Real Estate Equity Fund.

In addition, it hired Provident Capital Management, Philadelphia, as an equity manager, giving it \$10 million, and Security Capital Real Estate Corp., New York, giving it \$5 million.

Patricia Pabst, retirement fund manager, said the moves were made to diversify the fund and increase its return. The fund kept its

Continued on page 70

Cash flow tight at Deere Plan in holding pattern

By Rose Darby

MOLINE, Ill. — Deere & Co.'s plans to reduce its salaried work force will not significantly affect its \$1.5 billion pension fund even though cash flow is tight, said Carl Liebscher, director of investments. Deere's investments in alternative vehicles, such as venture capital and real estate, have been curtailed, however, since the pension fund reached a "break even" point between assets and liabilities.

"We had been increasing our venture capital and real estate investments, prior to the problem. But now we're in a holding pattern," he said.

"In the past, our method of moving money from one area to another was easy. It's not easy now, but we can still do it. We just have

to do it with dividends and interest, though."

Thus, while the Deere fund won't be terminating any money managers or selling off investments, "we won't be making any asset allocation moves of any kind," Mr. Liebscher concluded.

The company is reducing its work force by 1,000 employees through layoffs and an early retirement program.

The cost of the program and earlier pension plan changes produced a tight cash flow situation in which assets and liabilities are evenly matched with one another, he explained.

Continued on page 71



Late news

Continued from page 3

The bank's Lincoln Alliance Trust was retained for equity.

The fund had nearly \$60 million as of December 1982, according to the Money Market Directory. Mr. Fogel declined to reveal more recent figures.

To run equity accounts of undisclosed size, the fund hired Meridian Management Co., Little Rock, Ark.; Neuberger & Berman, New York; Rollert & Sullivan Inc., Boston; Frank Russell Trust Co., Tacoma, Wash.; and Fidelity Management Trust Co., Boston. Picked as fixed-income managers were Lowe, Brockenbrough, Tierney & Tattersall Inc., Richmond, Va., and The Putnam Advisory Co., Boston.

Two buildings bought

SAN RAFAEL, Calif. — The Marin County Employees Retirement Association paid \$4.4 million for two research and industrial buildings in Sunnyvale, Calif., said Joseph Coffrini, retirement administrator for the \$140 million fund.

DOL submits proposal

WASHINGTON — The Department of Labor has sent its draft proposal to define plan assets to the Office of Management and Budget for review. If approved, the rule will be published for comment.

Gruntal sets up shop

NEW YORK — Alan Rosenfeld, formerly director of Bayrock Advisors and senior vice president at Prudential-Bache Securities will head up Sterling Capital, a management firm being launched by Gruntal Financial Corp.

Gruntal Financial, a regional stock brokerage firm, hopes to lure both pension fund clients and individual accounts through Sterling Capital. Gruntal already has \$50 million under management, of which \$10 million is tax-exempt, through Gruntal Asset Management Group.

Sterling, a division of the asset management group, will be opening with at least \$50 million in assets, according to David L. Okun, first vice president. Of that, \$40 million is tax exempt.

George joins Wardley

NEW YORK — Deborah G. George has left Wertheim-Phillips International as director of marketing to join Wardley Marine International Investment Management, where she will be marketing

director.

The firm is owned by the Hong Kong & Shanghai Bank.

Late 'money movers'

• WAUKEGAN, Ill. — Keith A. Pope, treasurer for Outdoor Marine Corp., said the firm's pension fund has committed \$4 million to the closed-end real estate pool run by Equitec Institutional Realty Advisers Inc., Oakland, Calif.

This first Equitec fund, scheduled to close at month's end, has about \$28.5 million from four clients, including K mart and Nalco.

• LEXINGTON, Va. — The Virginia Military Institute has hired Lowe, Brockenbrough, Tierney & Tattersall Inc., Richmond, Va., to run a \$12 million fixed-income account as part of a restructuring of its foundation, which functions as an endowment.

Fund officials refused to comment on the changes.

However, sources confirmed several other changes. Capitoline Investment Services Inc., Richmond, Va., was changed from a balanced manager running \$16 million to straight equity with \$7 million. Also Brundage, Story & Rose, New York, and Sovran Bank (formerly First & Merchants), Richmond, Va., were dropped.

• DALLAS — The Dallas Police and Firemen Pension Fund has decided to retain its present investment consultant, Eppler, Guerin & Turner Inc. after a lengthy search, according to plan administrator Jerry Hast.

The \$210 million fund advertised for proposals in May and received several hundred requests from interested bidders.

• DECATUR, Ill. — The \$60 million NECA-IBEW Pension Trust Fund has placed \$3 million in Union Labor Life Insurance Co.'s separate mortgage 'J' account.

Larry Lawler, fund manager, said the reason the pension fund placed the assignment with Union Labor is because the 'J' account stands for jobs and construction. "The central fact is that not only do you get a good return but it puts people to work," he said.

All of the fund's assets are entirely in fixed income and overseen internally.

• BOCA RATON, Fla. — The Boca Raton Police and Firefighters Pension Plan hired Investment & Capital Management Corp., Tampa, to manage its \$9.5 million pension fund in a balanced account.

The fund terminated Investment Counsel Co., Orlando, reportedly due to performance concerns.

Highlights

BROKER SURVEY

Charts detail results 19

FUTURES & OPTIONS

Futures stand on their own 13
Switch strategy aids Gould 13

CASH MANAGEMENT

Wall Street intrigued by strategy 55
ARPS popularity continues 55
Treasury encourages good procedures 55

CORPORATE FINANCE

Oligopoly corners shelf market 21
Costs greater for stock shelves 22
Corporate notes 23
Rutledge see balance sheet adjustment 24

REAL ESTATE

Big corporate names fade from field 27
California's smaller funds out of step 27
Services rate open-end funds 27
Wrap-up 28

DAN DORFMAN

A quiet Wall Street fight 66

FEATURES

Clark: discovering the 'Northwest quadrant' ... 43
Victor, Brewer: fixed-income financial futures ... 44

GENERAL NEWS

Pension exec's say their role is changing 6
EAI's Carroll moves to GTE 8

DEPARTMENTS

Current accounts 74
Datebook 51
International update 41
Letters 10
Market beat 33
Money movers 74
News briefs 70
Opinion 10
People 63
Washington 25

Vol. 12, No. 19 — Pensions & Investment Age (ISSN 0273-5466) is published every other Monday at 740 Rush St., Chicago, Ill. 60611. Second class postage paid at Chicago, Ill., and at additional mailing offices. Postmaster: Send address changes to Pensions & Investment Age, Circulation Dept. 740 Rush St., Chicago, Ill. 60611. Copyright 1984.

Cover photo courtesy of the American Stock Exchange.

Business explodes with rising interest rates

Portfolio dedications estimated at \$10 billion

By Barry B. Burr

CHICAGO — Attracted by interest rates turning up, pension funds this year have moved an estimated \$10 billion into immunized and dedicated bond portfolios.

So far in 1984, *Pensions & Investment Age* has reported that 16 such portfolios have been set up, totaling more than \$2.7 billion (see accompanying chart listing 15 of them). But the reports belie the extent of the move to dedication and immunization; many more have gone unreported.

"The total immunization and dedication this year was probably at least \$10 billion," said Robert Rabb, vice president-fixed income, Wilshire Associates, Los Angeles.

At First Boston Corp., T. Barrett Moore, vice president-fixed-income research, didn't have any estimate of the market size, but said, "This business has exploded in the last year and a half as interest rates have risen."

At Salomon Brothers Inc., Martin L. Leibowitz, managing director, added, "There's no question there's significant broad-based activity in dedication and immunization."

Wilshire, one of the most active firms in the field, said it alone was involved in several immunizations and dedications this year, totaling almost \$2 billion.

First Boston, another active firm, said it acted as an adviser in setting

up the bond portfolios this year of more than 36 pension funds. Mr. Moore said the portfolios range from less than \$5 million to more than \$500 million. In all, they

Salomon's pension fund clients, saying only the number has been "in the many's." It set up probably the largest of the year, a \$1.1 billion dedicated bond portfolio by

Oppenheimer Capital Corp. said it set up so far this year three dedicated bond portfolios, worth in total \$125 million. Kenneth D. Brown, vice president-fixed-in-

Corp., Jeffrey B. Pantages, vice president, said the firm set up one such portfolio this year and has others under negotiation. Sources said Alliance set up a \$216 million combination dedication/immunization bond portfolio for the National Intergroup Inc. pension fund. Both Alliance and National declined to comment.

Chase Investors Management Corp. has immunized or dedicated portfolios totaling \$150 million for four pension funds, said Ned Gerstman, investment officer. For Reynolds Metals Co. and Ceco Corp., Chase used immunization techniques. For two other pension funds, it used dedication.

Gifford Fong Associates, Lafayette, Calif., has done dedications and immunizations "well into the billions" for pension funds this year, said its president, Gifford Fong. One of its largest was a \$350 million multiperiod immunization bond portfolio set up recently for Armco Inc.

Another pension fund, Mobil Oil Corp., is planning a dedication with the help of U.S. Trust Co., although neither of the principals commented.

There has been other activity in dedication and immunization as well. Besides first-time use, a number of pension funds have added to previously dedicated or immunized portfolios.

Continued on page 72

Reported dedications and immunization in 1984

Pension fund	Type of bond portfolio	\$ millions	Manager of portfolio
Bethlehem Steel Corp.	dedicated	700	in-house*
Brockway Inc.	immunization	40	Mfg. Hanover Invest. Corp.
Ceco Corp.	immunization	10	Chase Investors Mgmt. not yet selected*
Chrysler Corp.	dedicated	1,100	in-house*
Colt Industries Inc.	dedicated	300	First Wisconsin Trust and First Chgo. Invest. Advisors
Dayton Hudson Corp.	immunization	16	Minton/Leibowitz's Capital Mgmt.
GATX Corp.	dedicated	175*	First Wisconsin Trust
Johnson Controls Inc.	immunization	4	Morgan Guaranty Trust
McGraw-Edison Co.	immunization	43	NA
Mobil Oil Corp.	NA	NA	NA
National Intergroup Inc.	horizon matching	216	Alliance Capt. Mgmt. Corp.
Ohio Casualty Group	immunization	20	in-house
Peabody Holding Co.	immunization	11	First Wisconsin Trust
PPG Industries Inc.	dedicated	80	Pittsburgh National Bank
Stanley Works	immunization	NA	not yet selected

* less than
* set up by Salomon Bros.
* set up by First Boston Corp.

amount to several billion dollars, he added, declining to be specific.

At Salomon Brothers, Mr. Leibowitz declined to give details on

Chrysler Corp.

Morgan Guaranty Trust Co. immunized or dedicated six portfolios, totaling \$941 million.

come investments, said one was a \$100 million portfolio for a Taft-Hartley pension fund.

At Alliance Capital Management

Is emphasis on returns misdirected?

By Fred Williams

DALLAS — Money managers are facing increased short-term performance pressure, much of it self-imposed because of a feeling of competition rather than because pension fund sponsors are out for a quick profit.

Pension fund executives say they grant, either expressly or through generally accepted procedures, the premise that a manager should have at least a complete market cycle, three to five years, to prove his worth.

The only barrier to that time frame is if there are changes in personnel at the investment firm or a change in the fund's investment philosophy.

Pension fund executives claim that, by and large, they do not make decisions on either retaining or firing managers based on quarterly results.

But the executives do monitor carefully performance at least quarterly to make sure the manager stays on the course agreed upon.

"From our standpoint, we do let people go, but we deliberately try to avoid a quarter-by-quarter pressure on our managers, and we also want to be careful about telling managers how to do their business," said Harry Vernon, assistant vice president at Minnesota Mining & Manufacturing Co.

"We believe we give them a fair amount of rope... We are not looking over their shoulders, but we want them to understand that, over the long term, there will be a day of reckoning," Mr. Vernon said.

Pension executives claim the objectives of funds should be long term, but that should not prohibit them from taking advantage of short-term benefits in the marketplace.



Edwin Callan



Roy Schotland



Eugene C. Sit

"Our investment strategy regarding the pension fund is much

Continued on page 68

Carnation fund won't sweeten Nestle coffers after acquisition

By Rose Darby

NEW YORK — The acquisition of Carnation Co. might greatly enhance Nestle S.A.'s U.S. market presence, but Carnation's pension fund won't add anything to the deal.

Carnation has roughly \$150 million in a defined contribution plan, according to the Blue Book of Pension Funds. Officials at Carnation did not return phone calls.

According to one Nestle spokesman, Carnation most likely will run its pension fund independently. This is the case with all of Nestle's U.S. umbrella companies — Stouffer's, Libby's, Beechnut and Alcon.

Pension funds and investment managers who held Carnation stock before the proposed \$3 billion acquisition by Nestle, did so because of the company's sterling fundamentals rather than because of its attractive takeover possibilities, according to a sampling of shareholders by *Pensions & Investment Age*.

"We held it because of the funda-

mentals of the company," said Donald Cruse Jr., vice president of Society Corp. in New York. He oversees investment of the roughly \$10.6 million in employee benefit funds.

"We held a lot of food stocks and still do. We just got lucky with this one," he added. "We didn't think of it as a takeover candidate."

Portfolio managers at Aetna Life & Casualty bought Carnation for sound fundamentals, too, said Ralph Tate, vice president of portfolio management, who manages roughly \$2 billion. "In active accounts there are roughly 100,000 shares," he added.

The Carnation stock was purchased in the \$60 range. At that level, "it looked cheap on our valuation system," he explained. "Carnation was one issue where the value was there. It had a discounted price-earnings ratio and good earnings."

Mr. Tate conceded there was added interest to Carnation for qualities that also could make it a takeover possibility.

During the past 12 months, not

much has happened in terms of real performance except in companies that are restructuring, he pointed out.

"It is almost impossible to know enough about a deal ahead of time, but you look where there are real supporting values," he added.

Such was clearly the case with Carnation stock, he said.

"The reason we bought it was we'd been doing a lot of work on excess cash flows and relating that to the market capitalization and debt of companies," said Michael Wolf, vice president of IDS/American Express Inc., which held about 248,200 shares of Carnation stock for clients June 30.

Carnation was a company with such an excess cash flow, he added. "We were trying to develop a case for corporations that develop a lot of cash flow beyond corporate spending and dividends," Mr. Wolf said.

While there was no hint that Carnation would be a takeover target, "we knew that companies doing this (developing high cash

Continued on page 74

Pennsylvania builds up real estate

By Mark Westerbeck

HARRISBURG, Pa. — The \$4.3 billion Pennsylvania State Employees Retirement System increased its growing stable of real estate managers, committing up to \$30 million each to pooled funds of F.I.A. Associates Inc., JMB Institutional Realty and Security Capital Real Estate.

The state system can't have more than a 20% stake in any of the pooled funds. These commitments join additional funding and commitments made early this summer to previously hired managers. Altogether, assets committed to real es-

tate total \$361.7 million, or about 8% of assets.

The latest commitments are for F.I.A.'s first closed-end fund, JMB's third closed-end pool and Security Capital's only open-end fund.

The amounts funded during the summer included \$20 million to Aetna Realty Investors Inc.'s open-end fund; \$10 million to Prudential Asset Management Co.'s mortgage pool MORISA; and \$10 million to John Hancock Mutual Life Insurance Co. Another \$10 million was committed to acquiring shares of Corporate Property Investors, a real estate investment

trust.

In addition to the potential \$90 million committed to the new advisers, the Pennsylvania fund's allocations are \$44.7 million to the Philadelphia Savings Fund Society for participating mortgages; \$86.5 million to Aetna (previous funding was to closed-end equity and mortgage funds); \$45.9 million to Corporate Property Investors; \$44.1 million to Hancock; \$30.5 million to Prudential; and \$20 million to Equitable Real Estate Investment Management for a closed-end account (*Pensions & Investment Age*, Aug. 2, 1982, and March 5, 1984).

Continued on page 74

Eighty-five investment firms responded to Pensions & Investment Age's annual survey of brokerage firms. Institutional investors were asked to rate the firms on four financial services, stock and bond trading, and research. Ratings were scored by assigning three points to firms named as a first choice, two for second, and one for third choice.

Institutional use of brokers	
Total brokerage commissions paid by investment managers in 1983:	
Aggregate:	\$176,559,000
High	25,000,000
Median	1,300,000
Low	73,000
Trading costs per share in 1983:	
High	30.0c
Median	12.2
Low	3.5
Brokerage firms that received the most in fees from respondents in 1983:	
Salomon	\$11,647,240
Prudential—Bache	8,993,733
Morgan Stanley	7,216,360
Merrill Lynch	4,715,731
Smith Barney	1,713,919
Number of brokerage firms used by one investment manager:	
High	400
Average	42
Low	3

How brokers rate on research and trade execution (mentions)

Most often named 1st	Most often named 2nd	Most often named 3rd
Best equity research		
Merrill Lynch (16) Goldman, Sachs (15) Dean Witter (5) Donaldson Lufkin (5) Kidder Peabody (4) Paine Webber (4)	Merrill Lynch (13) Goldman, Sachs (12) Donaldson, Lufkin (7) Kidder Peabody (5) Paine Webber (4) Prudential—Bache (4)	Kidder Peabody (7) Merrill Lynch (7) First Boston (5) Sanford C. Bernstein (4) Goldman, Sachs (3) Donaldson, Lufkin (3)
Best equity trading		
Goldman, Sachs (33) Salomon (7) Morgan Stanley (7) Merrill Lynch (6) Jefferies (4)	Salomon (21) Merrill Lynch (10) Goldman, Sachs (10) Jefferies (4) Dean Witter (3) First Boston (3)	Merrill Lynch (14) Salomon (9) Goldman, Sachs (7) Jefferies (5) Shearson Lehman (5)
Best fixed income research		
Salomon (16) Merrill Lynch (11) First Boston (9) Goldman, Sachs (3) Prudential—Bache (3)	Salomon (15) Merrill Lynch (10) Goldman, Sachs (6) First Boston (6) Prudential—Bache (3)	First Boston (10) Goldman, Sachs (6) L.F. Rothschild (4) Salomon (3) Dean Witter (3) Merrill Lynch (3)
Best fixed income execution		
Salomon (17) Merrill Lynch (8) First Boston (6) Prudential—Bache (6) Goldman, Sachs (5)	Merrill Lynch (11) First Boston (9) Goldman, Sachs (8) Salomon (7)	Salomon (12) Merrill Lynch (5) Goldman, Sachs (3) Kidder Peabody (3) Shearson Lehman (3) First Boston (2)
Best regional brokerage firms		
Alex. Brown (8) Montgomery (6) Piper Jaffray (5) William Blair (4) Hambrecht & Quist (3)	Alex. Brown (4) William Blair (4) Piper Jaffray (4) Hambrecht & Quist (3) Robertson, Colman (3)	Robinson—Humphrey (5) Montgomery (4) Alex. Brown (3) McDonald (3)
Best stock market technicians		Best Wall Street economists
Robert Farrell, Merrill Lynch (12) John Mendelson, Dean Witter (12) Alan Shaw, Smith Barney (7)		Edward Hyman, C.J. Lawrence (15) Gary Wenglowksi, Goldman, Sachs (7) Lacy Hunt, Carroll McEntee & McGinley (4)

Top brokers . . .

Continued from page 3

search this year included Dean Witter Reynolds Inc., Kidder, Peabody & Co. and Paine Webber Inc., all garnering four or more first-place votes.

The three top firms and the order in which they were preferred for equity block trading were unchanged: Goldman, Sachs was first; Salomon Brothers, second, and Merrill Lynch, third. This year, Morgan Stanley was fourth. A Los Angeles firm, Jefferies & Co. Inc., took fifth.

First Boston gained in popularity for its fixed-income services. It took third place away from Goldman, Sachs in both fixed-income research and trading.

Goldman, Sachs, which picked up the most total points, actually fell to fourth place in both fixed-income research and trading.

Salomon and Merrill Lynch again ranked first and second, respectively, in both fixed-income research and trading.

For fixed-income research, Prudential-Bache Securities Inc. also had a respectable showing. It was the first choice of three firms and the second choice of three.

Prudential-Bache gained six first-place votes for its ability to execute fixed-income trades; Goldman, Sachs received five and Lehman Brothers Kuhn Loeb Inc., which Shearson/American Express acquired this year, received four.

Salomon brought in the most in equity trading fees from the investment firms surveyed. The firms range from the relatively small — those managing less than \$100 million — to the mammoth — more than \$10 billion.

They paid Salomon \$11.6 million in trading fees, followed by Prudential-Bache, \$9 million; Morgan Stanley, \$7.2 million; and Merrill Lynch, \$4.7 million.

The 85 chief investment officers who answered this year's survey paid brokers a total of \$176.6 million in brokerage fees in 1983. In 1982, 59 firms paid \$102.7 million in equity fees. Institutional investors used an average of 42 brokers, according to the results of the new survey.

The most paid by one firm for brokerage fees was \$25 million; the median, \$1.3 million; and the lowest, \$73,000.

The investment firms reported paying slightly higher equity trading costs per share in the 1984 survey than they did in the 1983 survey. Firms reported paying a median price of 12.2 cents per share in 1983; 30 cents was the highest and 3.5 cents, the lowest. The median, high and low paid in 1982 were 13.4 cents, 35 cents and 1 cent, respectively.

Most firms thought brokerage fees would fall or remain the same in 1984. Thirty-five firms thought brokerage fees would not change and 32 thought they would decrease. Only 13 predicted increases and five did not comment.

Institutional investors held mixed opinions about whether the investment research the Wall Street firms provide has improved. Twenty-two saw slight improvements and 21 thought research quality had declined. Twenty said it had not changed and 22 did not comment.

Alex. Brown & Sons Inc. was the regional brokerage firm most preferred by institutional investors; it chalked up 35 points when scored for first, second and third preference.

Montgomery Securities ranked second, 28 points; Piper, Jaffray & Hopwood Inc. was third, 24; William Blair & Co. was fourth with 21 points; and Hambrecht & Quist Inc. was fifth with 17.

The investment firms surveyed also offered their opinions on Wall Street's best stock market technicians and economists and their predictions on where the stock and bond markets will be at the end of this year.

Edward Hyman of C.J. Lawrence Inc. once again was the most popular economist, picking up 15 votes. Gary Wenglowksi, Goldman, Sachs's economist, was second with seven votes, followed by Lacy Hunt of Carroll McEntee & McGinley with four.

Most of those surveyed saw long-term interest rates hitting 13% to 14% by the end of 1984.

Robert Farrell of Merrill Lynch was by far the favorite stock market technician mentioned in 1983's survey, but he apparently now has some competition.

Mr. Farrell and John Mendelson of Dean Witter Reynolds each were the favorite of 12 firms this year. Alan Shaw of Smith Barney, Harris Upham & Co. Inc. received seven votes.

Predictions on the level the Dow Jones Industrial Average would be at year-end clustered around 1,200, but a few optimists predicted it would rise to 1,250.

These predictions were made before the recent run-up in the stock market.

Predictions made by institutional investors in last year's survey about where they thought the Dow Jones index would go by the end of 1983 were slightly optimistic. The median prediction put the Dow Jones at 1,305, but the index reached only 1,287.20 at its peak Nov. 29, 1983.

Corporate Finance

SDC: 'Oligopoly' corners shelf market

By Marci Baker

NEW YORK — Just six months after Rule 415 formally was adopted, shelf-registered securities made up virtually half the stock and bond offerings placed in the market.

What's more, a few of the top underwriters are getting an increasing share of that volume. Salomon Brothers Inc. has established a wide lead over the others in shelf-related market share.

In the first six months of 1984, \$33 billion of stocks and bonds (including preferred stock and convertible bond and preferred securities) came to market in 647 deals. Of those, 46.6% were offerings taken off the shelf, according to data supplied by Securities Data Corp. in New York. Moreover, all but \$654.7 million of the shelf deals were for debt securities.

While the first half of 1983 produced more overall volume — \$59.1 billion in 1,128 deals — only 36.6% represented shelf-related issues. For the year, 37.9% of the \$97.6 billion issued in 2,221 stock and bond deals were shelf offerings.

Moreover, SDC credits five investment firms with taking the lion's share — 82.9% — of total shelf-related offerings in syndicated and non-syndicated deals during the first half of this year, up from 75% for the same 1983 period.

SDC's numbers were tabulated according to offerings taken from the shelf, regardless of when an issuer filed under Rule 415. In addition, the data gives full credit to lead managers. Excluded from the data are issues done on a best efforts or auctioned basis, and all debt-for-equity swaps.

"There has been an extreme boom in shelves, and that will continue," said Chris Pauli, vice president at Shearson Lehman/American Express. Speed and the ability to catch windows in the market are the key reasons for the popularity of shelf registration.

"The timing problems have been eliminated," said Thomas Cover, assistant vice president at General Motors Acceptance Corp., the financing arm of General Motors Co. "We're able to move much more quickly to take advantage of opportunities in the marketplace." GMAC recently filed a \$1 billion shelf with the Securities and Exchange Commission.

Many issuers might be benefiting from lower financing costs as a result of shelf registration as well. A study by the SEC last year indicated companies saved 30 to 40 basis points on debt issued under Rule 415, compared with comparable issues sold under traditional methods (*Pensions & Investment Age* Nov. 14, 1983).

The rule, which became effective

Top 10 managers: Shelf market share
(1/1/84 — 6/30/84)

Managers	All shelf issues*		Syndicated*			Non-syndicated*		
	\$ mil.	Issues	\$ mil.	Issues	Rank	\$ mil.	Issues	Rank
Salomon Brothers	5,704.9	34	4,539.6	24	1	1,165.3	10	1
First Boston	2,584.9	38	1,893.4	27	2	691.5	11	2
Goldman, Sachs	1,663.7	15	1,333.9	11	4	329.8	4	5
Shearson Lehman/Amex	1,530.8	23	1,384.7	18	3	146.1	5	7
Merrill Lynch	1,273.5	17	871.8	8	5	401.7	9	4
Paine Webber	705.5	7	486.6	4	6	218.9	3	6
Dean Witter Reynolds	684.3	3	199.3	2	7	485.0	1	3
Morgan Stanley	303.4	6	184.1	3	8	119.3	3	8
Kidder Peabody	262.6	5	149.4	2	9	113.2	3	10
E.F. Hutton	148.4	2	49.4	1	10	99.0	1	12
Other	528.4	39	38.2	2		490.2	37	
Total shelf	15,390.4	189	11,130.4	102		4,260.0	87	
Total market**	33,036.5	647						

* Full credit given to lead manager

** Total market share includes common and preferred equity, convertible preferred equity, and convertible and non-convertible debt.

Source: Securities Data Corp., New York

at the end of last year after a two-year testing period, allows issuers to preregister their debt and equity financing needs, then issue them from the shelf at their discretion during a two-year period.

As Wall Street observers pre-

dicted, however, the impact of shelf registration is reaching well beyond the benefits to issuers.

It has fueled the growing institutionalization of the market, more competition among investment firms and the breakdown of old-

line investment banking ties, investment bankers noted. Plus, as the SDC figures show, it has led to most underwriting business being placed with an oligopoly of the largest investment houses.

Continued on page 22

Investment Advisors to pension and profit-sharing plans and the substantial investor

At David J. Greene and Company, particular emphasis is placed on preservation of capital through investment in special situations and undervalued securities. Our investment principles have been developed through more than 40 years of investing experience in these areas.

David J. Greene and Company

Registered Investment Advisors
30 Wall Street, New York, N.Y. 10005
Member New York Stock Exchange

Costs greater for stock shelves

NEW YORK — The costs of issuing equity through shelf registration might be far greater than the savings corporations can realize.

While companies that have used shelf registration to issue primary equity saw lower issuing costs and smaller underwriting spreads, a Securities Industry Association report revealed the stock prices of shelf issues generally were lower than non-shelf issues.

The report pointed to "the uncertainty surrounding a shelf offering and the inability of investment banking firms to conduct price stabilization activities on the stock being issued" as possible reasons for the lower prices on shelf-related issues.

Although shelf-registered offerings are making up a larger share of the market, most of the Rule 415 activity continues to center on debt issues. Of the \$15.4 billion in shelf-registered securities issued in the first six months of 1984, only \$654.7 million represented equities, according to Securities Data Corp. in New York.

Investment bankers believe this is because shelf registration is less advantageous for stock offerings.

The SIA Trends report, prepared by Gary Gray, E.F. Hutton vice president, for his Ph.D. dissertation at Pennsylvania State University, appears to back up that view.

Mr. Gray studied 116 equity offerings of at least 250,000 shares and priced at a minimum of \$10 a share from the period between March 3 and Dec. 31, 1982. That sampling consisted of 20 shelf offerings and 96 non-shelf offerings.

In addition, of the entire sample, 75 deals were for utilities.

The study indicated shelf registration appeared to reduce underwriting spreads by 28% for the entire sampling, 25% for shelf registered utilities and 30% for non-utility shelf offerings.

In addition, companies were able to lower total issuance costs by 25% for the total sample, while overall issuance costs for utilities and non-utilities were cut by 10% and 58%, respectively.

As a result, the issuer won 74.6 cents more in net proceeds for every \$100 raised in a shelf equity deal. The investment banker got 90.6 cents less in the underwriting spread, according to the report.

However, stock price erosion overshadowed those gains, according to the report.

Mr. Gray monitored stock price movement for the three days and 41 days surrounding the announcement of an offering. In both cases, the study showed the non-shelf samples substantially outperformed their shelf counterparts on a raw return and market-adjusted return basis.

For the 41-day period, shelf-registered issues on average posted a total raw return of 7.13% vs. 10.59% gain for non-shelf issues. The report revealed a wider disparity on a market-adjusted return basis, with shelf issues declining 3.07% and non-shelf issues up 5.07%.

On average then, shelf issues were offered at prices that were approximately 3.46% lower on a raw return basis and 8.77% lower on a market-adjusted return basis. "This is a large price for an issuer to pay to save 0.746% in issuance costs," the report stated.

Shelf market . . .

Continued from page 21

Shearson's Mr. Pauli noted other events, such as deregulation and mergers among Wall Street houses, have fueled these trends as well. But "shelf registration is an important contributor to the process," as another investment banker put it. "The business is operating under a Darwinian environment. It's survival of the fittest," said a Salomon official.

The fittest appear to be the large, well-capitalized firms with strong syndicate desks that have proven

agility in a faster-paced market, investment bankers note. These firms are risk oriented and bid aggressively for business.

Indeed, considering the size of deals and the pace with which they are issued, "chutzpah is not an irrelevant factor," the Salomon official said.

Salomon has plenty of "chutzpah" and other key ingredients if the SDA numbers are any judge.

The New York firm was credited with 37.1% of shelf volume, including syndicated and non-syndicated

offerings, for the first six months of the year, running well ahead of its competitors (again giving full credit to lead manager).

Salomon topped the market share list in a breakdown of syndicated and non-syndicated deals as well, capturing 40.8% and 27.35%, respectively, of the shelf market.

These numbers represent a substantial increase from Salomon's shelf-related market share during the same period last year.

For the six months ended in June 1983, Salomon led other firms with 22.1% of total shelf offerings. The firm was the front-runner in syndicated deals as well, with a 25.3% market share, but placed second behind Goldman, Sachs & Co.

in non-syndicated deals with 14.65%.

Running a distant second in total shelf market share through June this year was First Boston Corp., with 16.8%. First Boston was followed by Goldman, Sachs, with 10.8%; Shearson, 9.9%; and Merrill Lynch Capital Markets, 8.3%.

During the same period last year, Goldman was close behind Salomon with 21.3% of the total shelf market. Others were First Boston, 11.9%; Shearson, 10.5%; and Morgan Stanley & Co., with a 9.4% market share. Morgan Stanley's 2% market share this year dropped the firm to eighth place.

In syndicated shelf offerings this

Continued on page 23



The partnership at work. Dick Fullames, Treasurer of General Electric Pension Trusts (center), discusses global custody with Dave Mann, Chase NY (left) and Colin Grimes, Chase London.

Global Network

Foreign Exchange

Corporate Finance

Continued from page 22

year, First Boston also ran second, with 17% of the volume. Shearson was third with 12.4%, followed by Goldman, 12%, and Merrill Lynch, 7.8%. In the first half of last year, Goldman's 21.8% of total syndicated shelf volume put it in second place, followed by First Boston, 12.9%; Morgan Stanley, 11.6%; and Merrill Lynch, 9.7%.

First Boston ranked second in the non-syndicated shelf offerings this year as well. It captured 16.2% of total shelf volume, while Dean Witter Reynolds had 11.4%; Merrill Lynch, 9.4%; and Goldman, 7.7%.

Goldman, however, held the top spot during the first six months last year, with a 20% market share in

non-syndicated shelf volume, followed by Salomon; Shearson, 14.55%; First Boston, 9.6%; and Paine Webber, 7.1%.

It is the "special bracket firms," of which the front-runners in the SDC numbers are members, that are getting virtually all of the shelf business now, while the smaller regionals are being left out in the cold, investment bankers noted.

Issuers are basing underwriter selections more on performance, and who offers the best price, rather than relying on old-line allegiances. This has created a major opportunity for the most aggressive firms, the bankers added.

Paccar Financial, for example, decided to test the waters with a

different lineup of firms in a \$250 million shelf of medium-term notes it filed this month. It named Merrill Lynch and Smith Barney, Harris Upham & Co. Inc. as agents in the filing, and listed Morgan Stanley, Salomon and Paine Webber as other firms able to bid for underwriting privileges.

In a previous filing, Merrill and Lehman were the key managers named, while Smith Barney and Morgan Stanley were named as other firms able to bid on securities.

The increasing sophistication and plethora of financing options available to corporations and investor preference for larger deals also have led issuers to blue-chip firms.

"Investors care about what kind of secondary market an offering will have," one investment banker noted. The larger deals provide the best secondary market, and the big firms are in prime position to execute these deals.

Shelf registration also has increased the window phenomenon, in which issuers go into the market when it's favorable.

As a result, markets tend to be characterized by periods of heavy issuance followed by periods where activity is slack. This has put added pressure on bankers to sell securities more quickly, investment bankers said.

Prior to Rule 415, large syndicates would be pulled together, and

marketing periods could last up to two to three weeks. Now, an offering could be completed and sold within a day.

One change coming with the faster pace has been smaller management groups and syndicates, said Mr. Pauli.

The faster, more competitive environment fueled by Rule 415 in one case could be a double-edged sword in that the due diligence function could suffer.

"Investment bankers have an obligation to investors to ensure the credibility of the bonds they are selling. This is more difficult to do in a shelf environment where things are moving so fast," one banker said.

Notes

Bank deal costs rise

CHICAGO — The number of mergers and acquisitions in banking fell in 1983, but the dollar value of deals soared and the industry maintained its position as the most active.

Bank mergers and acquisitions reached \$13.6 billion in 1983, more than the combined value of deals done in both 1982, \$5.6 billion, and 1981, \$4.2 billion, according to data compiled by W.T. Grimm & Co.

Data for 1983 on other industries are forthcoming from the Chicago firm, which specializes in mergers and acquisitions.

In 1983, 331 bank deals were done, down from 426 in 1982, and also less than the 335 done in 1981. Nevertheless, banking ranked first among all industries in the number of deals.

The size of deals is definitely on the rise, although the dollar value in the banking industry ranked fourth.

In 1983, seven banking and finance transactions were more than \$500 million, against just one in 1982.

The seven largest financial deals in 1983 were Manufacturers Hanover Corp.'s acquisition of C.I.T. Financial Corp., \$1.5 billion; Mercantile Texas Corp.'s purchase of Southwest Bancshares Inc., \$1.176 billion; Financial Corp. of America's acquisition of First Charter Financial Corp., \$805 million; Philadelphia Savings Fund Society's purchase of Family Financial Services, \$600 million; CBT Corp.'s purchase of Bank of New England, \$559 million; American Express Co.'s purchase of Trade Development Bank Holding, \$550 million; and Bank of Montreal's purchase of Harris Bancorp, \$544 million.

Acquiring banks are paying less, however, for other banks. In 1983, the premium over market value that a bank paid for another one was 40.6%.

This is well below the 60.3% premium paid in 1982 and the 53.6% premium paid in 1981.

U.S. financial companies were more active in buying foreign companies than foreign banks were here.

Eight U.S. banks bought overseas financial concerns, and seven overseas bought U.S. banks. Also, the number of U.S. acquisitions of foreign banks has increased each year since 1981, while the foreign purchases here declined.

Triple-A ranks thinner

NEW YORK — Standard & Poor's Corp. reports more and more companies are migrating out of its top rating, triple-A, for long-term debt.

The industrial companies and banks are among those that lost the most ground.

The number of triple-A rated industrial companies has dropped one-third in the past decade, ac-

Continued on page 24

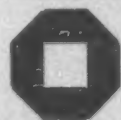
The Chase Partnership.

It's what makes Chase the world's largest Master Trustee.

Chase became the world's largest Master Trustee by working closely together and closely with you to commit The Bank's total resources to helping you achieve your pension trust management goals.

Chase stays in the forefront with constant innovation of services and products such as our global custody program. The unparalleled knowledge and experience of our Chase professionals in New York and London is dedicated to meeting your global custody needs. From providing up-to-the-minute reporting and information services to designing specialized systems like multi-currency accounting and global analytics, every facet of our global custody services has been developed in close collaboration with our customers. For more information, please call John Sweeney at (212) 730-3008.

The Chase Partnership



CHASE

Global Analytics

Technology

People

Portfolio dedications . . .

Continued from page 5

The \$95 million pension fund of Peabody Holding Co., parent of Peabody Coal Co., this year set up an \$11 million immunized portfolio with First Wisconsin Trust Co., adding to the \$12 million in assets it immunized in 1982.

McGraw-Edison Co. added to and readjusted its existing \$85 million dedicated bond portfolio; and it moved the management outside.

Thomas Biwer, director of retirement plan investments, said McGraw-Edison increased the portfolio's size, to \$128 million, changed it to duration matching, or immunization, and hired Morgan Guaranty Trust Co. to run it. McGraw-Edison now has a third of its \$400 million in pension assets immunized.

In its recent immunization, Reynolds switched an existing ded-

icated portfolio to multiperiod immunization, a variation of the dedication technique.

Many pension funds decline to discuss in detail their reasons for pursuing the investment strategy.

The bond-portfolio technique, known generically as dedication, allows funds to lock in returns with a large degree of certainty.

Its most basic version is called cash-flow matching, also simply called dedication. It involves matching certain assets to certain liabilities by purchasing bonds so their cash inflows from coupon income and maturing principal matches as closely as possible the periodic outlays required by the pension fund to pay benefits.

By using the income as soon as received, the pension fund eliminates the risk of not being able to

reinvest bond income at the same or higher rate the portfolio was set up to earn.

Immunization, also known as duration matching, is another variation. With it, bond proceeds aren't specifically matched to pay periodic liabilities. Instead, it involves matching the duration of bonds with the duration of liabilities. A bond duration measures how soon a bond repays an investor.

In a combination dedication/immunization, also known as horizon matching, a bond portfolio uses methods from both the techniques.

Investment advisers cite several reasons for this year's surge in interest in the portfolios.

"Anytime you have a bear market, the attractiveness of immunizations and dedication improves," said Mr. Brown of Oppenheimer

Capital, expressing comments similar of others in the business.

"Anytime you get above a 12½% rate in Treasury bonds, interest picks up."

With inflation low, he said, the Treasury rate approaches the historic real return, or return after inflation, of 12% on equities.

Advisers also cite the increasing familiarity of pension sponsors with the technique as a reason for its growing use.

The advisory firms have sensed the growth in the dedication market. Until last year, First Boston only set up the portfolios "at customer request," said Mr. Moore. Now, it has 14 professionals soliciting business. "First Boston is making a concerted effort," he added.

In most cases, the advisers said, the portfolios allow corporations to reduce their annual pension contributions, because the technique provides a return more certain than other investments like equities and

a return higher than the more conservative actuarial rate, usually around 8%, on which the contributions are calculated.

Equity returns, although higher historically compared with bonds, are more volatile and recognized over a longer period by actuaries and thus have no immediate reduction on contributions.

Mr. Fong said, "The wide spread between the actuarial return and the return you can get on bonds" is attracting pension funds to the technique. The bond portfolios set up this year, he said, are returning in excess of 12%. "You can get 13% without any problem," he added.

At Bethlehem Steel Corp., for instance, it announced its dedication will allow it to reduce its pension contribution by \$50 million a year.

At Peabody, Steven F. Schaab, manager-financial administration, said both immunizations allowed the company to increase its actuarial return and cut annual pension contributions by \$500,000. Other pension funds reported similar experiences.

In setting up the portfolios, most pension funds aren't eliminating money managers.

Salomon, First Boston and Gifford Fong set up the bond portfolios for pension funds, although none is a money manager. They supply the analytics, much of it in computer software, to select the bonds to construct the portfolio. In most cases, they said they work with money managers selected by pension funds.

"We are not (investment) advisers," said Mr. Leibowitz of Salomon. "We work with investment managers essentially all this time (in setting up dedications). We always urge dedications (and immunizations) be actively managed by a money manager."

Dedicated, or cash-matched, portfolios require less management than active bond portfolios.

"At minimum, they should keep an eye on credit risk," said Mr. Brown, referring to the ability of a bond issuer to make coupon and maturity payments.

"Most of our work is done through money managers, because corporate pension sponsors don't want to take the responsibility of managing the portfolios in-house," Mr. Fong said.

Advisers said immunization requires management because its cash inflow doesn't match as precisely the cash outlays. So bonds frequently have to be sold out of the portfolios, and portfolios need period rebalancing. In addition, Mr. Leibowitz said immunization doesn't work well in all interest-rate environments.

But some sponsors prefer to manage their portfolios themselves. According to Gifford Fong, Armco manages its immunized portfolio in-house. Colt Industries Inc. hired no money manager to oversee its \$300 million dedicated this year and \$100 million dedicated in 1982, said Daniel D. Chabris, assistant treasurer.

First Boston said 80% of its portfolios have been dedications, or cash-flow matchings, as opposed to immunizations, or duration matchings.

At Salomon, Mr. Leibowitz said, "The overwhelming majority of pension funds and majority of dollars has been cash-matched, or dedicated, portfolios."

The reason in part, he said, is that dedication is a simpler concept and has less risk than immunization. "Immunized (portfolios) have to be managed; dedicated (portfolios) need not be," he added.

But Mr. Fong said, "We've seen more immunization-types of portfolios recently. That's because immunization can give you higher returns than cash-flow matching." But he added, "The increased returns more than offset the added risk" of the portfolios compared to dedication.

Why you should switch to Cadence Performance Measurement reporting.

CADENCE is a new state-of-the-art performance measurement system with a menu of 40 tables and striking color charts.

You can:

1. Select—and pay for only those tables and charts you need.
 2. Get reports 2 working days after monthend and rankings within "the CDA universe" just 15 working days after monthend.
 3. Cut costs dramatically! For example you might choose comprehensive quarterly reports on 10 funds—OR concise reports on 50 funds for only \$7,800 per year.
- Reports can be generated online from any interactive terminal—or prepared by our staff at CDA. For a brochure and sample report, just return the coupon.

David G. Cook, Vice President Marketing
(301) 942-1700.

Please send a brochure and sample report describing your new CADENCE PERFORMANCE MEASUREMENT report.

Name _____

Position _____

Firm _____

No. & Street _____

City, State, ZIP _____

cda
Investment Services

Computer Directions Advisors, Inc.
11501 Georgia Avenue
Silver Spring, MD 20902 / (301) 942-1700
Offices: New York, Chicago, San Francisco, Silver Spring